

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019 SESSION

BAC1634 – FINANCIAL ACCOUNTING REPORTING 1

(All sections / Groups)

1 MARCH 2019
9:00 a.m. - 12:00 p.m.
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

- a) Explain the difference between the conceptual framework and financial reporting standards and how are they related? (8 marks)
- b) Discuss the following qualitative characteristics of accounting information:
- i. Relevance and reliability (3 marks)
 - ii. Comparability and consistency (3 marks)
- c) Explain the implication for each of the following accounting concepts on the preparation of financial statements:
- i. Going concern (3 marks)
 - ii. Materiality (3 marks)

(Total: 20 Marks)**QUESTION 2**

The following trial balance was extracted from the books of Waja Bhd as at 31 December 2018.

<u>Trial Balance as at 31 December 2018</u>	RM'000	RM'000
Land	3,600	
Buildings - Cost	4,800	
Buildings - Depn at 1st Jan 2018		1,440
Plant and Machinery - Cost	4,868	
Plant and Machinery - Depn at 1st Jan 2018		1,208
Inventory	3,926	
4% Bank Loan (repayable 31st December 2020)		1,600
Bank Account	150	
Share Capital - 8,000,000 Ordinary shares		3,000
Retained Earnings		4,998
Receivables and Payables	6,272	4,750
Sales		39,200
Cost of sales	22,800	
Selling and Distribution expenses	5,880	
Administration expenses	3,920	
Suspense Account		20
Sub-Totals	56,216	56,216

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The following matters have not been taken into account in the preparation of the above trial balance and must be considered and appropriate adjustments made in the preparation of the financial statements.

- i. The inventory was valued at RM3,766,000 on 31 December 2018. The balance shown in trial balance is the opening inventories at 1 January 2018 as the year-end inventory valuation had not been finalized when the trial balance was extracted. No adjustments for opening or closing inventories have been included in cost of sales.
- ii. A valuation exercise on the land and buildings was performed prior to the year end with the aim of boosting the asset value of the company. The surveyor valued the land and building as follow. This revaluation has not been reflected in the above figures.

	<u>RM</u>	<u>Estimated useful life</u>
Land	5,000,000	-
Buildings	6,000,000	15 years

Buildings are depreciated on a straight line basis and the charge allocated to expenses as follows

Cost of Sales	80%
Sales and Distribution Expenses	10%
Administration Expenses	10%

- iii. During the year a machine equipment was sold. This machine had a cost of RM100,000 and accumulated depreciation of RM40,000 in the book. The only accounting entries made in respect of this disposal were to debit bank and credit the suspense account at RM20,000. Any profit or loss on disposal of machine should be recorded in cost of sales.
- iv. Plant and machinery is to be depreciated at 20% on a reducing balance basis and the charge allocated to expenses are as follows

Cost of Sales	60%
Sales and Distribution Expenses	20%
Administration Expenses	20%
- v. The interest due for the year on the bank loan had not been accrued at 31 December 2018.

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- vi. On 30 June 2018, the shareholders of Waja Bhd declared and approved at the AGM an ordinary final dividend of RM0.08 per share in respect of the year ended 31 December 2017. This dividend is to be paid on 31 January 2019 for cash flow reasons.
- vii. The income tax charge for the year has been calculated at RM1,240,000.

Required:

- a) Prepare a Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018. (7 marks)
- b) Prepare a Statement of Financial Position as at 31 December 2018. (13 marks)

(Total: 20 marks)**QUESTION 3****Part A**

On 1 January 2015, an 8% convertible loan note with a nominal value of RM1,200,000 was issued RM1,200,000. It is redeemable on 31 December 2018 RM1,200,000, or it may be converted into equity shares of ABC Bhd on the basis of 100 new shares for each RM200 of loan note. An equivalent loan note without the conversion option would have carried an interest rate of 10%. Interest of RM96,000 has been paid on the loan and charged as a finance cost.

The present value of RM1 receivable at the end of each year, based on discount rates of 8% and 10%, are as follows:

End of year	8%	10%
1.....	0.93	0.91
2.....	0.86	0.83
3.....	0.79	0.75
4.....	0.73	0.68

Required:

- a) Calculate the equity and liability components of the 8% convertible loan note on 1 January 2015. (3 marks)
- b) Assuming that all the loan stock holders choose to convert all their interests into ordinary shares on maturity, show the journal entries on 31 December 2018 to record the transactions. (3 marks)

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Part B

The share capital of Tarik Bhd as at 1 January 2018 consisted of 40,000,000 ordinary shares of RM40,000,000. During the year, Tarik Bhd made the following transaction:

- 30 April 2018, Tarik Bhd bought back 10,000,000 of its shares from the open market at the prevailing market price of RM8.00 per share. These shares were held as treasury shares.
- On 30 October 2018, Tarik Bhd sold 6,000,000 treasury shares in the open market price at an average price of RM10.00 per share.

In 2017, Tarik Bhd issued 4,000,000 units of warrants to bond holders that entitle the holders to subscribe for ordinary shares of the company. Each unit of warrant entitles its holder to one ordinary share at an exercise price of RM6.00 per share. As at 31 December 2018, none of the warrants have been exercised. The average market prices of Tarik Bhd's ordinary shares for the year was RM9.00 and this can be assumed as their fair value.

The profit attributable to ordinary shares of Tarik Bhd for the year ended 31 December 2018 is RM96,000,000.

Required:

Compute the basic EPS and the diluted EPS of Tarik Bhd for the year ended 31 December 2018. (6 marks)

Part C

The following information relates to property, plant and equipment of ABC Bhd, a manufacturing company.

<u>Land and buildings</u>	<u>RM</u>
Valuation (on 1 January 2016)	1,000,000
Accumulated depreciation at 31 December 2017	160,000
<u>Plant and equipment</u>	
Valuation (on 1 January 2016)	350,000
Accumulated depreciation at 31 December 2017	140,000
<u>Revaluation Reserve</u>	
Land and building (on 31 December 2017)	400,000
Plant and equipment (on 31 December 2017)	18,000

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ABC Bhd uses the revaluation model to measure its property, plant and equipment. On 1 January 2018, the company's directors commissioned an independent valuation of property, plant and equipment, which attributed a total value as follows:

	<u>RM</u>	<u>Estimated useful life at 1/1/2018</u>
Land	200,000	-
Buildings	700,000	20 years
Plant and equipment	170,000	4 years

It is the company's policy to eliminate accumulated depreciation on valuation date.

On 1 January 2018, a new equipment was acquired for RM60,000, which is included in the RM350,000 above and in the valuation of RM170,000 above. Other than this equipment, there were no additions to or disposals of property, plant and equipment in the year ended 31 December 2018. No depreciation has currently been charged for the year ended 31 December 2018. Depreciation is charged on a straight-line basis.

ABC Bhd has a policy of making an annual transfer between the revaluation surplus and retained earnings wherever possible. The old depreciation charges on a historical cost basis would have been RM30,000 for plant and equipment and RM20,000 for buildings.

Required:

- Prepare journal entries on the above transaction for the year 2018. (7 marks)
- Prepare the relevant extracts of the financial statements of ABC Bhd. in respect of the above property plant and equipment at 31st December 2018? (7 marks)

Part D

Mari Bhd owns three office buildings in Petaling Jaya, Cyberjaya and Balakong. In the board meeting held on 30 November 2017, the management of Mari Bhd determined to sell the office building at Balakong and planning to buy a new one in Shah Alam. Mari Bhd. classified the office building at Balakong as held for sale at year-end of 2017. During 2018, the market conditions that existed in 2017, when the building was classified initially as held for sale, deteriorated, and as a result, the building was not sold by the end of 2018. During 2018, Mari Bhd actively solicited but did not receive any reasonable offers to purchase the building and, in response, reduced the price.

Required:

Examine the classification of the hotel at the end of 2018 under MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. (4 marks)

(Total: 30 Marks)

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QUESTION 4**Part A**

- a) On 1 January 2018, Stabilo Bhd owned a high tech machine with a net book of RM375,000. The fair value of the machine on this date was RM450,000. On the same date, Stabilo Bhd sold the asset to Sunshine Financing Berhad for RM562,500 and immediately leased back the asset for a period of five years. The leaseback is an operating lease.

Required:

Explain how Stabilo Berhad shall account for the sale and leaseback transaction and show the journal entries required. (5 marks)

- b) Explain **FIVE** criteria in determining the finance lease according to MFRS117 *Leases*. (5 marks)

Part B

Determine the appropriate accounting treatment of the following events in accordance with MFRS110 *Events After the Reporting Period*.

- a) Lazada Manufacturing Berhad produces refrigerators which uses linear technology that enable its refrigerators to be industry leaders in energy saving, freshness, noise level, capacity and durability. However, in December 2018, the company discovered manufacturing defects in two of their products namely LG675L and RX722L. LG675L was manufactured and sold since September 2017 and was sold at RM6,999. RX722L was one of its new products manufactured and sold in the first quarter of 2019 at a price of RM9,699. The company was advised by its lawyers that it was highly probable that the company will have to pay damages of RM2,550,000 for LG675L and RM4,350,000 for RX722L. The financial statements for the year ended 31 December 2018 were authorized for issue on 1 March 2019. (5 marks)
- b) Sedap Sdn Bhd operates in Nilai and produces a variety of can soups. Kumar bought a pack of mushroom soup from the supermarket near his house in October 2018. While eating a bowl of soup, he found a piece of sharp metal in the soup which injured his tongue. He sued Sedap Sdn Bhd for RM250,000 to cover his medical expense and the trauma he suffered from the incident. Sedap Sdn Bhd made a provision for liability amounting to RM100,000. In January 2019, the case was brought to court and the judgement was in favour of Kumar. The judge requested Sedap Sdn Bhd to pay RM175,000 to Kumar for damages.

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Sedap Sdn Bhd's current financial year ended on 31 December 2018. The directors authorised the financial statements for issue on 1 March 2019. (3 marks)

- c) Ecova Bhd proposed to pay the final ordinary dividend of 6% on 10 March 2019. The board of directors have has decided to pay dividends the ordinary shareholders amounting to RM3.75 million. Ecova Bhd's year end was 31 December 2018 and the financial statements were authorised for issue by the directors during the Annual General meeting on 31 March 2019. (2 marks)

Part C

Riverside Cyclone Berhad operates its business in Cyberjaya. The company manufactures office and home vacuum cleaners. Riverside Cyclone Berhad gives warranties at the time of sale to purchasers of its products. The warranty is valid for 12 months from the date of sale. During the year ended 31 December 2018, the provisions for warranty were recognised at RM3.75 million since this product warranty was part of the marketing strategy to increase sales in 2018. This provision of warranty was based on past experience of repairs and replacements. However, the customer services division had estimated that only 5% of product Bagless Vacuum Cleaner and 7% of product Wet and Dry Vacuum Cleaner will be returned for repairs and replacement out of the sales made during 2018. The sales for product Bagless Vacuum Cleaner and product Wet and Dry Vacuum Cleaner during the year ended was RM35 million and RM22 million respectively.

Required:

- a) Discuss and show the accounting treatments for the above events according to MFRS 137 *Provisions, Contingent Liabilities and Assets*. (5 marks)
- b) Explain the differences between provision and contingent liability in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* and why they are accounted for differently. (5 marks)

(Total : 30 marks)

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